Q4 2023

QUARTERLY ECONOMIC REPORT

West & North Yorkshire Chamber of Commerce

IN PARTNERSHIP WITH

Leeds City Region Enterprise Partnership

Working in partnership with the West Yorkshire Combined Authority

Amanda Beresford
Chair
West & North Yorkshire Chamber of Commerce

The scale of the challenge facing Yorkshire businesses is laid bare in the most recent Chamber Quarterly Economic Survey.

After encouraging signs in recent months, activity around sales, hiring intent and investment has stalled and, in some cases, gone backwards.

It is however, encouraging to see that expectations on future profitability remains upbeat – something we can be very proud of in Yorkshire.

This comes at a time when the region has had to endure its share of disappointments, most notably the cancellation HS2 to the North of England, a massive blow for the region after so many years of expectation.

We remain vigilant to the more existential geopolitical threats that exist. The horrific events in Israel are clearly a cause for concern to our members with one in three of those who engaged in the QES saying they expected the conflict to impact their business. The scale of the challenges that Artificial Intelligence could pose is slowly heading up the priority list for firms.

Inflation may be falling but business leaders are clearly still deeply concerned about its effects and interest rates are also continuing to pose headaches.

A lot of change is coming our way in the coming 12 months, with elections due for both ourselves and the United States.

Hopes of stability remain, although there is no sign of that occurring any time soon.

As a resilient and future-facing economy, Yorkshire firms are prepared for the worst but optimistic that better times lie ahead.

Mark Casci
Head of Policy and Representation
West & North Yorkshire Chamber of Commerce

In what appears to be a recurring theme, Yorkshire continues to take one step forward followed by one step back when it comes to its economic recovery. After a genuinely positive Q3 in which employment, sales, investment and confidence on profits all rose, we have seen a far less positive picture in Q4.

Sales, both domestically and overseas, fell – in some sectors by a fairly dramatic margin. Optimism on employment and investment rowed back and cashflow remains a serious issue for businesses large and small. That said, Yorkshire remains its stoic and indefatigable self and remains relatively upbeat on profit expectations.

The context in which the fieldwork for the final Quarterly Economic Survey of 2023 was carried out will have influenced the findings.

It took place after the horrific events of October 7 precipitated the armed conflict in Israel and before the announcement that inflation had fallen by more than expected. Just over a third of respondents said the war in the Middle East would harm their businesses while a comparable amount said the Ukraine conflict was a negative factor.

And despite the drop to below five per cent in November, inflation is still cited by business leaders as among their chief external pressures.

The fieldwork was also carried out following the hugely disappointing news that the Government has cancelled HS2 to the north of England, something 33 per cent of business leaders in Yorkshire said was bad news for their enterprise.

Pay settlements are also increasingly being cited by business leaders as a cause for concern as business leaders seek to appease and retain a workforce that is being squeezed by soaring costs at every turn.

While the decline in sales and investment activity is naturally a serious cause for concern, the outlook on profitability gives me grounds to remain sanguine. I speak to hundreds of businesses every month and, while there are of course significant challenges to trading, I have yet to detect a hint of nihilism.

After such a turbulent few years, businesses have become accustomed to choppy waters and I have yet to hear an economist predicting a return to stability any time soon.

As a final point I included in the latest round of fieldwork questions over artificial intelligence and was surprised to see only a quarter of businesses were concerned about what impact it would have on their firms. I expect to see this number grow considerably over the next 12 months.

The Quarterly Economic Survey is Britain's biggest business survey by some considerable margin and remains one of the most important pieces of work it does. As such I would welcome any feedback or observations – good or bad – and can be reached at mark.casci@wnychamber.co.uk.

Shevaun Haviland
Director General
British Chambers of Commerce

Our research shows that business confidence has stabilised at much healthier levels following a rocky end to 2022. But the economic warning lights are still flashing.

Firms are increasingly worried about interest rates, and while inflation concerns are falling, persistent wage pressures show we need a greater focus on relieving the UK's tight labour market.

With manufacturing lagging behind services, and low rates of investment across the board, especially in the hospitality sector, it is clear more needs to be done to spur growth.

After the disappointment of HS2, firms want to see clear signals from Government to encourage investment. This means putting in place a five-year rolling guarantee on the full expensing tax allowance to give business some much needed certainty."

METHODOLOGY
The respondents of business owner/senior manager/director/partner status. Fifty per cent of this sample were actively trading internationally, an identical figure to the Quarter three 2023 study.

Of those businesses surveyed 44 per cent were micro, 32 per cent were small, 19 per cent were medium and 9 per cent were large. Businesses were surveyed by telephone or online questionnaire between August 21 and September 14.

Net balance figures referred to throughout this report and represented in the graphs are determined by subtracting the percentage of companies reporting decreases in a factor from the percentage of companies reporting increases.

The Chambers that conducted the survey are:

- West and North Yorkshire Chamber of Commerce (which covers Bradford. Leeds, City of York and all of the North Yorkshire Districts).
- Mid Yorkshire Chamber of Commerce (which covers Wakefield, Calderdale and Kirklees).

BUSINESS SIZE CLASSIFICATION
Throughout the document we refer to the European standard definition of company size as follows

0 – 9 *employees*	**Micro business**
10 – 49 *employees*	**Small business**
50 – 249 *employees*	**Medium business**
250+ *employees*	**Large business**

DOMESTIC SALES
Heading in the wrong direction for both sectors as firms report a downturn in sale activity. The situation is worst in the manufacturing sector where 38 per cent of firms saw a decline in sales. Order books offer little by way of comfort going forward.

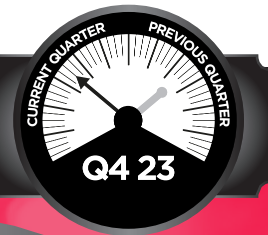
EXPORT SALES
Overseas sales for Yorkshire firms plummeted during Q4, particularly in service industry businesses where the rate of decline was at its sharpest since the pandemic. Order books too were in decline although by no means the same rate as sales, giving hope that the recovery in export sales seen throughout 2023 will return to normal in the coming months.

EMPLOYMENT
A static position for most employers. Close to 80 per cent of employers in service firms anticipate no change to their workforce in the next few weeks with 67 per cent of manufacturers reporting same situation.

INVESTMENT
After a much-improved situation during the summer and autumn, appetite for investment fell back towards the end of 2023. One glimmer of hope came in the area of staff training in service sector firms where there was a 32 per cent increase. However, investment in plant and machinery has stalled.

BUSINESS CONFIDENCE
Despite the bleak picture reported during the fieldwork Yorkshire business remains optimistic on profits. Neither sector anticipates a loss during the start of 2024, with service sector firms in particular confident on delivering profits in the short-term.

BUSINESS COSTS AND CONCERNS
Despite inflation falling by higher-than-expected levels during Q4 it, along with interest rates, are still posing huge problems for businesses and remain a constraint on growth. Throw in energy costs, raw materials and, in particular, pay settlements the squeeze on companies large and small continues to be unrelenting.


CURRENT QUARTER
PREVIOUS QUARTER
Q4 23


U K SALES
6%
SERVICES
U K SALES
-7%
MANUFACTURING
WORKFORCE NEXT QUARTER
16%
SERVICES
WORKFORCE NEXT QUARTER
-7%
MANUFACTURING
OVERSEAS SALES
-20%
SERVICES
OVERSEAS SALES
-5%
MANUFACTURING
INVESTMENT - CAPITAL
0%
SERVICES
INVESTMENT - CAPITAL
-12%
MANUFACTURING
CONFIDENCE - PROFITS
24%
SERVICES
CONFIDENCE - PROFITS
0%
MANUFACTURING
INVESTMENT - TRAINING
32%
SERVICES
INVESTMENT - TRAINING
-4%
MANUFACTURING

10 QES RESULTS

Q4

The service sector accounts for around 80% of businesses in West & North Yorkshire and contributes significantly to employment and the economy. The sector has significant clusters including professional and financial services, banking, legal, digital and creative across the region. Retail and tourism also pay a leading role in parts of our region. This survey includes results from all sub-sectors.

Manufacturing (including construction, utilities and primary industries) represents approximately 19% of the companies in West & North Yorkshire region. Manufacturing is still a major employer in our region with over 130,000 peopled employed here. Analysis of sub-sectors shows that the region has above-average representation in more advanced sectors such as chemicals and chemical production, medical technology, electrical equipment and machinery. Survey results include responses from across all major sub-sectors. The sample used in this survey includes a high proportion of manufacturing exporters.

UK SALES

SERVICES 6% ▼ -6%

MANUFACTURING -7% ▼ -11%

OVERSEAS SALES

SERVICES -20% ▼ -48%

MANUFACTURING -5% ▼ -11%

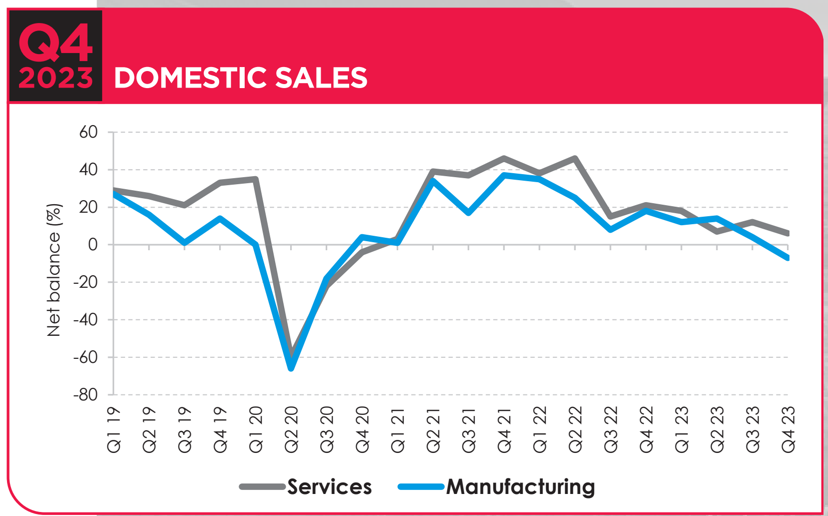
DOMESTIC SALES

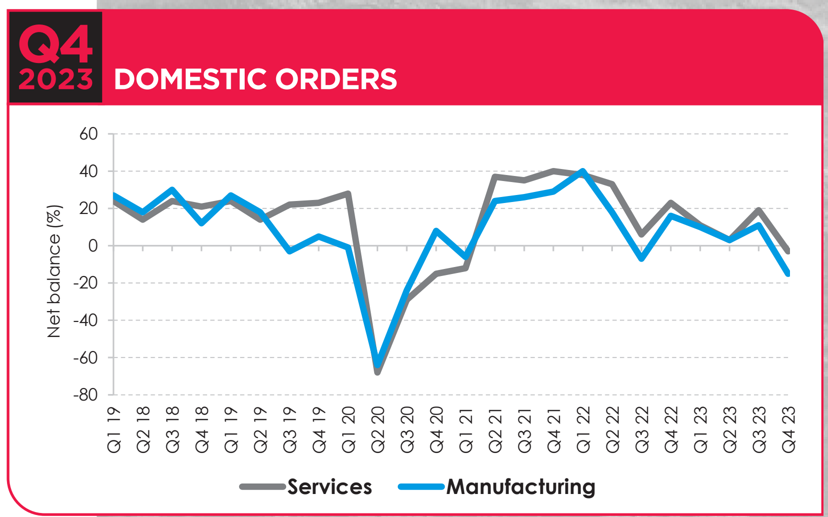
After a promising third quarter sales took a worrying downward trend during the last period, most notably for manufacturers. Thirty-eight per cent of manufacturing firms saw their sales decline while thirty per cent of service sector businesses also witnessed a decline. Not since the height of Covid disruption have there been more manufacturing firms seeing a decline in sales then those growing them.

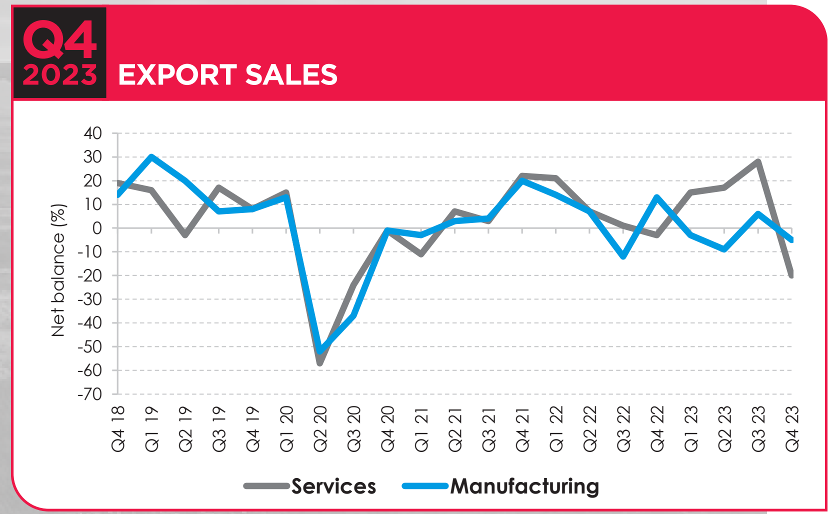
There seems to be little hope on the horizon either, as order books are also showing a decline into negative territory, a situation not seen since the start of 2021 when the country was still in lockdown.

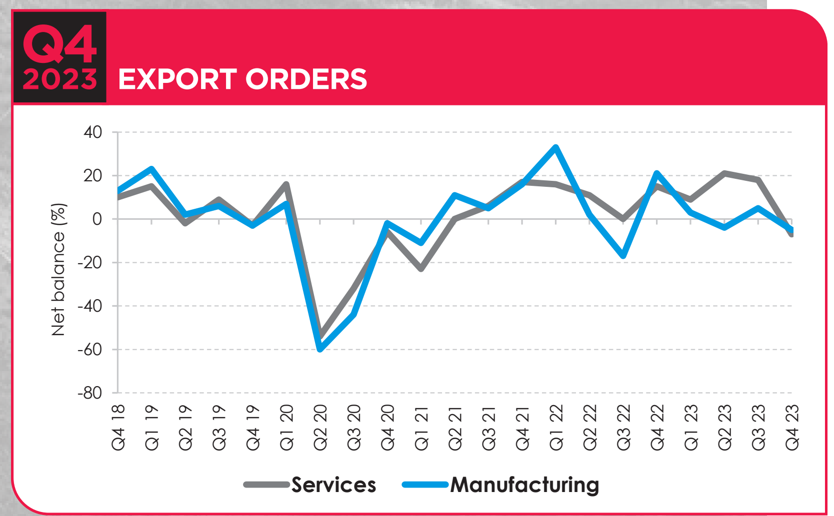
INDUSTRY VOICE

"Due to the cost-of-living crisis people are buying less - they have less money. Increasing interest rates to curb inflation just makes this worse. We need growth - people buying to stimulate manufacturing which will them trickle down to our customers."









INTERNATIONAL SALES

The growth in overseas sales and order that Yorkshire had enjoyed over the course of 2023 fell into sharp decline during the final quarter, with the service sector the most acutely impacted.

Forty per cent of service sector companies saw their international sales decline, with 32 per cent of manufacturers seeing a similar decline. For the service sector, one needs to go back to the imposition of lockdown to see a steeper decline in overseas sales.

Order books also showed a decline but not at the same rate as sales, something both sectors will hope indicates that the export market is through its toughest period.

EMPLOYMENT (NEXT QUARTER)

SERVICES **16%** ▼ -8%

MANUFACTURING **-7%** ▼ -27%

INVESTMENT (CAPITAL)

SERVICES **0%** ▼ -15%

MANUFACTURING **-12%** ▼ -34%

EMPLOYMENT

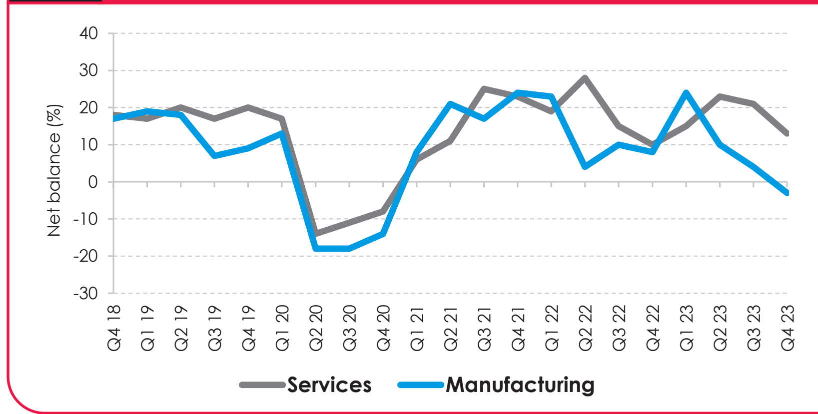
After a marked improvement last quarter, the manufacturing sector saw a collapse in hiring intent. The industry saw a seven per cent decline in plans to take on additional staff.

The strong recovery in the service sector taking on personnel stalled but not by the same order of magnitude, with firms still more likely to be taking on staff than to let them go.

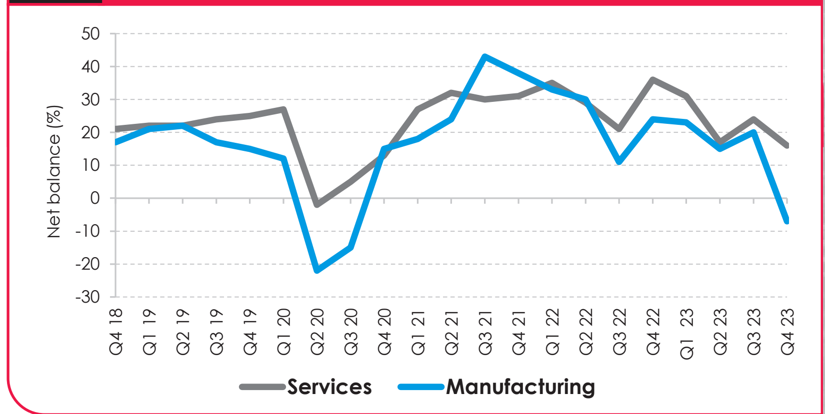
The saving grace is that the overwhelming majority of businesses in both sectors expect to keep their current staffing levels static, with 78 per cent of service sector firms and 67 per cent of manufacturers anticipating no change to their headcount in the coming months.

With the labour market still in a challenged state, issues around recruitment clearly continue to cause headaches for employers.

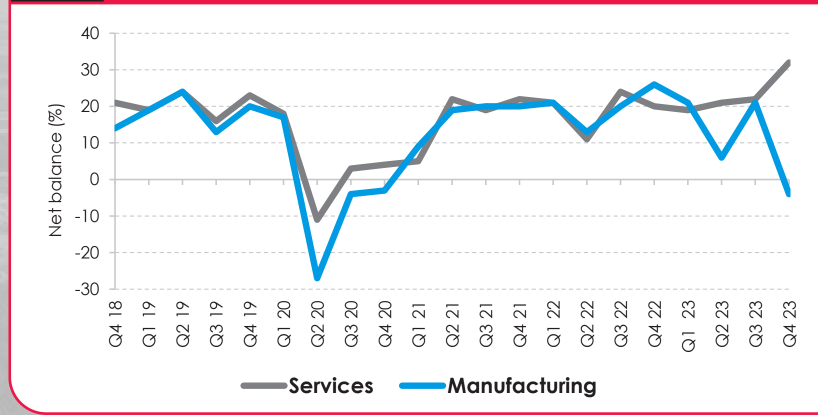
Q4 2023 WORKFORCE CHANGES - LAST QUARTER



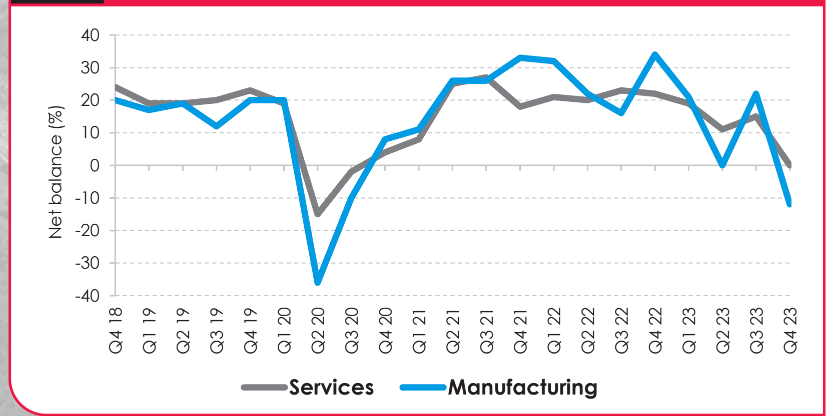
Q4 2023 WORKFORCE CHANGES - NEXT QUARTER



Q4 2023 TRAINING INVESTMENT



Q4 2023 CAPITAL INVESTMENT



INVESTMENT

Despite the easing of inflation, the forwards motion we saw on capital investment went into reverse during the final quarter of 2023.

The level of manufacturers seeking to invest in plant and machinery declined by 12 points while service firms saw their appetite level off.

Investment in training was a veritable game of two halves with service sector firms seeing a 32 per cent increase in intent while manufacturers saw theirs decline by four per cent.

The challenging economic picture is clearly continuing to throw a dampener on appetite for investment.

CAPACITY (FULL)

SERVICES
40%
0%

MANUFACTURING
39%
0%

CAPACITY & COST PRESSURES

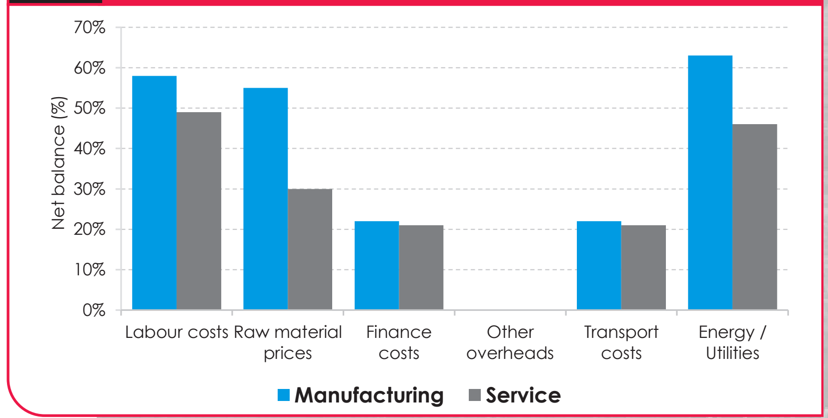
Interest rates and inflation continue to pose barriers to business growth. While the latter may now be declining from the generational high point it reached a year ago, interest rates remain at their highest point since the financial crisis. Bank of England bosses are signalling clearly that they have no intention on lowering rates any time soon as they work flat out to bring inflation down to its target of 2 per cent.

Meanwhile 60 per cent of service sector firms and 61 per cent of manufacturers report themselves to being under capacity.

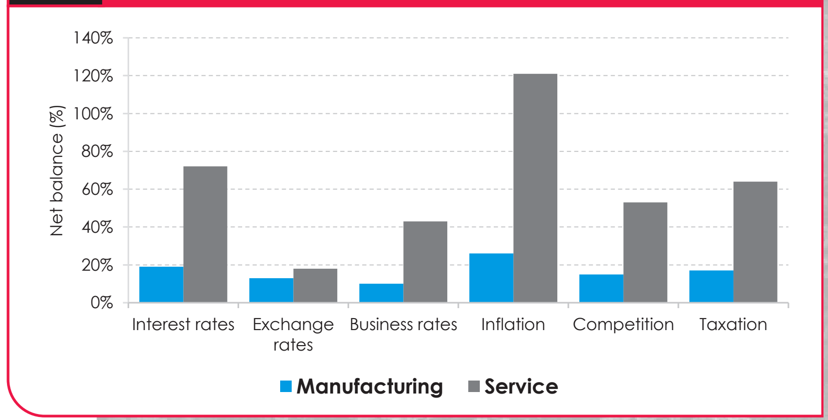
INDUSTRY VOICE

"Gas/electric prices to businesses should be capped. No measures have helped decrease these costs for us with 1/2 hourly meters paying 4 x domestic prices. Increase in business rates is horrendous with nothing in return from local council. Latest budget does not help our company as we have no need for large purchases."

Q4 2023 COST PRESSURES



Q4 2023 EXTERNAL FACTORS

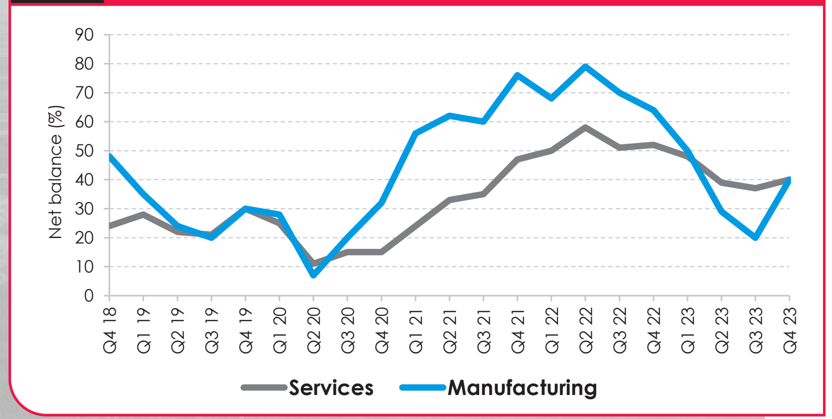


PRICES

SERVICES
40%
3%

MANUFACTURING
40%
20%

Q4 2023 EXPECTATION OF PRICE RISES



PRICES

The cost of doing business continues to grow for many firms. 41 per cent of both manufacturers and service sector businesses saw the prices increase during the final quarter of 2023.

Labour, energy, finance costs and raw materials are the principal areas of concern for business leaders.

Meanwhile, external pressures from interest rates and inflation remain a concern.

CASHFLOW

SERVICES

-11%

▼ -11%

MANUFACTURING

-46%

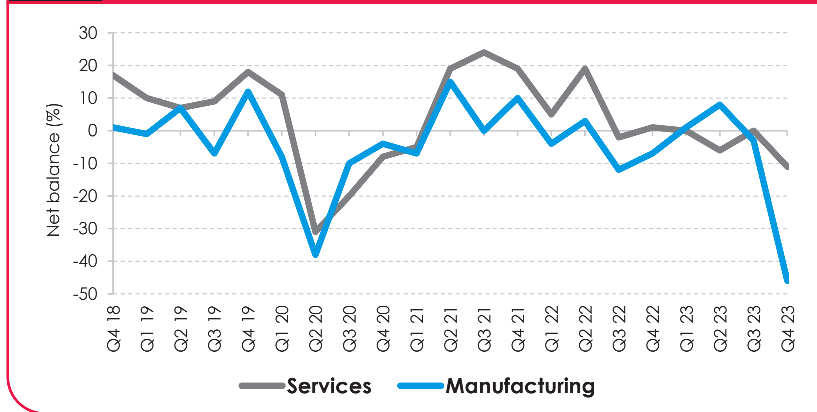
▼ -43%

CASHFLOW
Cashflow plummeted during the last quarter of the year, most noticeably for manufacturers.

Yorkshire as a whole has struggled with cashflow for months now but this was the steepest decline in the region seen since the onset of the pandemic.

The situation was particularly bad for manufacturing where a 46 per centage decline in cashflow was reported.

Q4 2023 CASHFLOW



CONFIDENCE (PROFITABILITY)

SERVICES

24%

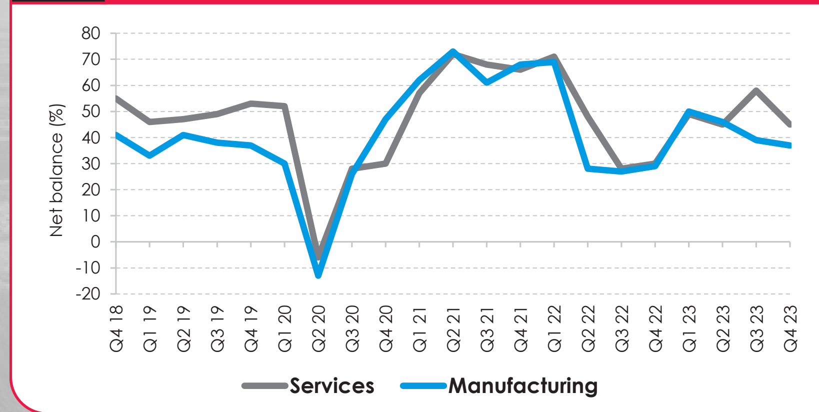
▼ -20%

MANUFACTURING

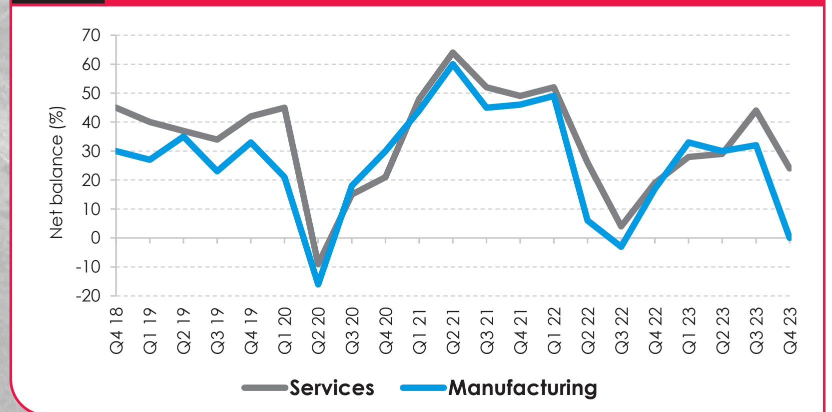
0%

▼ -32%

Q4 2023 TURNOVER EXPECTATIONS



Q4 2023 PROFITABILITY EXPECTATIONS



BUSINESS CONFIDENCE
The gradual increasing levels of optimism seen in Yorkshire seen in the 12 months since the infamous mini-Budget struck finally began to row back during Q4.

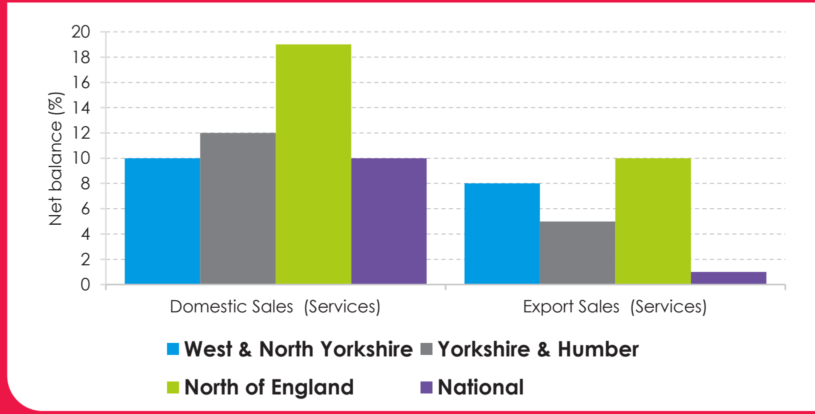
In manufacturing, there as many firms expecting an increase in declining profits than there are those expecting them to grow. In the service sector, firms are still 24 per cent more confident on increased profits than on decreased ones.

In context, the decline in optimism is only to levels seen in the middle of 2022.

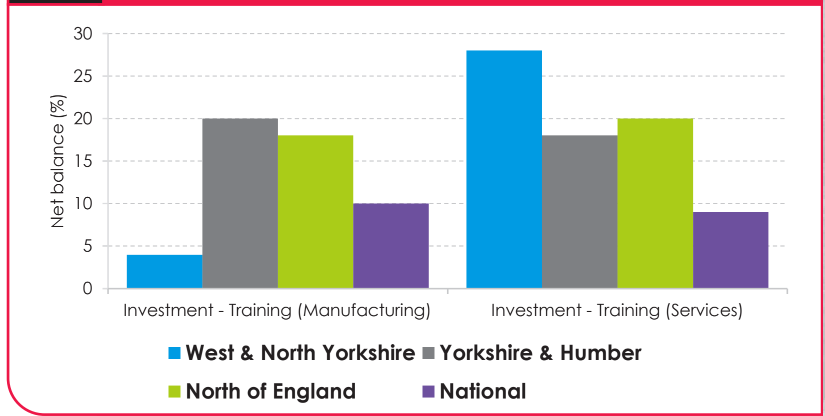
NATIONAL AND REGIONAL COMPARISONS

A real mixed bag. West & North Yorkshire is outperforming the rest of Yorkshire and the North on a number of areas, most notably on service sector profitability expectations and manufacturing sales domestically. However, there is a clear lag on areas such as capital investment in the manufacturing sector and in service sector domestic sales.

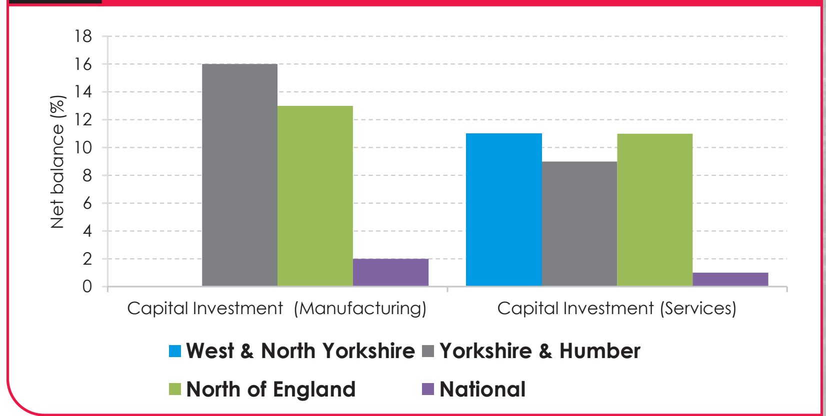
Q4 2023 REGIONAL COMPARISON - SERVICES



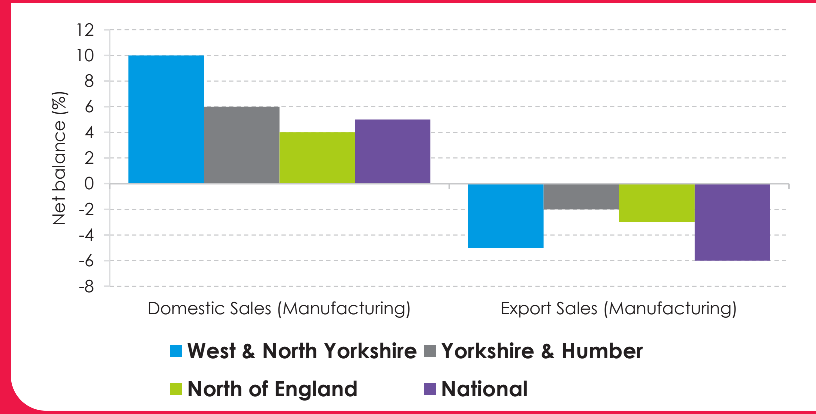
Q4 2023 REGIONAL INVESTMENT TRAINING



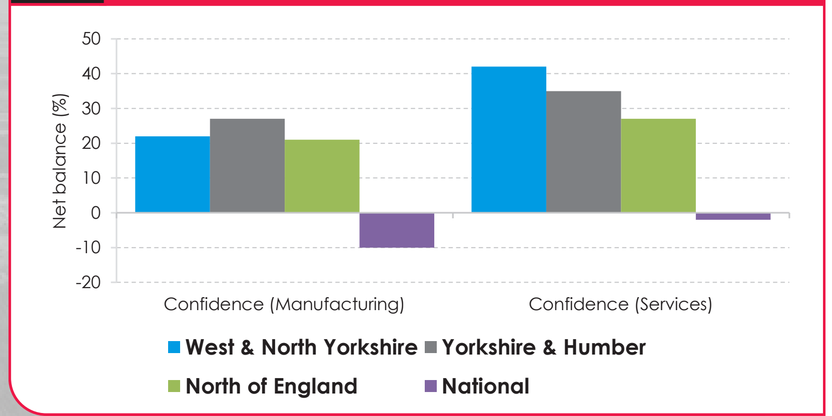
Q4 2023 REGIONAL INVESTMENT CAPITAL



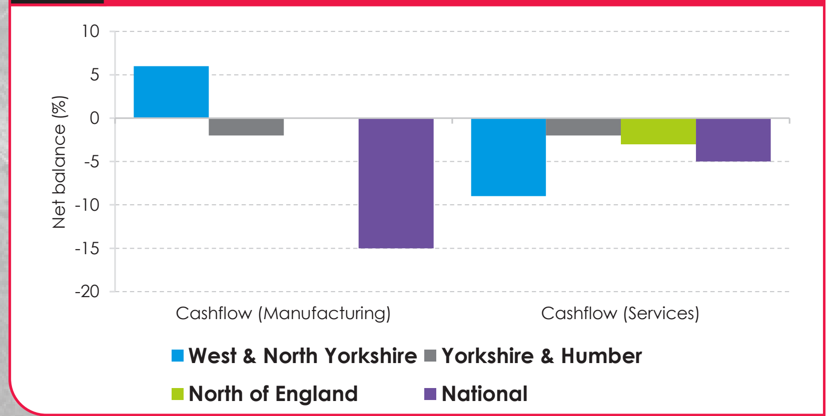
Q4 2023 REGIONAL COMPARISON - MANUFACTURING



Q4 2023 REGIONAL BUSINESS CONFIDENCE - PROFITS



Q4 2023 REGIONAL CASHFLOW



ARTIFICIAL INTELLIGENCE

For the first time, the Chamber asked respondents to the Quarterly Economic Survey for their thoughts on artificial intelligence.

We asked businesses two questions, whether they were worried about the impact of AI on their businesses and whether they had taken any steps to prepare for any impact from AI.

We found that 25 per cent of firms said they were worried, with the remaining 75 per cent declaring themselves unworried by the impact of AI.

Meanwhile 31 per cent of businesses said they had taken steps to mitigate against the impact of AI while 69 per cent said they had not.

David Bharier
Head of Research
British Chambers of Commerce

"The results of the QES continue to point to tough trading conditions for many firms as inflation, labour shortages, global trade barriers, and interest rate rises continue to bite."

The BCC's Quarterly Economic Survey (QES) for Q3 2023 shows the percentage of firms expecting to raise prices in the next three months has fallen for the fifth consecutive quarter.

THE DATA ALSO REVEALS THAT FOR THE SECOND QUARTER RUNNING THE MAIN FACTOR FOR INCREASING COSTS IS COMING FROM WAGES.

The survey, by the BCC's Insights Unit, of over 5,000 firms – 91% of whom are SMEs – also reveals business performance across different sectors varies considerably. The research took place between 21 August and 14 September before the Bank of England decided to hold the interest rate at 5.25%. Respondents were split into 28% manufacturing and 72% services industries, with 48% exporting.

ACTIVITY IN THE SERVICE SECTOR TICKS UP BUT MANUFACTURING IS LAGGING BEHIND

The percentage of all firms reporting increased domestic sales remained unchanged from Q2 at 35%. Meanwhile 23% reported a decrease and 42% reported no change. But the services sector saw a larger bump with 36% seeing an increase, diverging from manufacturers, where 29% saw an increase.

For cashflow, more businesses saw an improvement rather than a decline – a reversal of the situation in Q1 and Q2. But the changes remain small, as 28% of businesses said their cash flow has improved over the last three months (26% in Q2), while 26% have seen it decline (29% in Q2).

AFTER A ROCKY END TO 2022, BUSINESS CONFIDENCE BOUNCED BACK AND HAS NOW STABILISED.

The percentage of firms expecting to see their turnover increase over the next 12 months stood at 53% for Q3, broadly similar to Q1 (52%) and Q2 (54%) but up significantly from Q3 and Q4 in 2022 (both 44%). Only 16% expect a decrease in the next twelve months.

Profitability confidence also remains stable at 45%, up from 44% in Q2, although it continues to remain weaker than turnover confidence. 23% expect a decrease in the next twelve months.

THIS RECOVERY IN CONFIDENCE IN 2023 IS YET TO FEED INTO INCREASED BUSINESS INVESTMENT.

The percentage of respondents reporting an increase to investment in plant/equipment remains stuck at 23%, while 59% reported no change and 18% saw a decrease.

Over the last six years the number of firms increasing investment has dropped as low as 9%, at the start of the pandemic, but it has never gone higher than 28% (Q1 2018). The hospitality sector remains under additional pressure with 33% reporting a decrease in investment, and 22% an increase.

INFLATIONARY PRESSURES CONTINUE TO EASE BUT REMAIN THE TOP CONCERN.

The percentage of firms expecting their prices to rise fell for the fifth consecutive quarter. Two-fifths of firms (41%) now expect to put up prices in the next three months. This is down from an historic high of 65% in Q2 of 2022, indicating inflationary pressures are continuing to ease.

While inflation remains firms' biggest concern, the level has dropped for the third quarter running, with 65% of firms now worried compared to 69% in Q2. However there has been a corresponding 4 percentage point rise in businesses worried about interest rates, increasing from 41% in Q2 to 45% in Q3.

LABOUR COSTS ARE NOW THE NUMBER ONE COST PRESSURE FOR BUSINESSES.

Concerns around wage costs was the biggest pressure for most firms for the second quarter running, although the percentage worried has dropped from 68% in Q2 to 66% in Q3. However, worries about utility prices fell even further from 63% to 59%, creating clear water with wage costs as the number one issue.

But there remain wide sectoral differences with manufacturers citing wages (68%), raw materials (65%) and utilities (65%) in a three-way tie as main factors driving price increases. While in hospitality, 81% of firms were most worried about utility costs, with wages in second place at 74%. The retail sector was least worried about labour costs, with 52% citing it as an issue, against 59% flagging utilities and 58% raw materials.

DAVID BHARIER, HEAD OF RESEARCH AT THE BRITISH CHAMBERS OF COMMERCE (BCC), SAID:

"The results of the QES continue to point to tough trading conditions for many firms as inflation, labour shortages, global trade barriers, and interest rate rises continue to bite.

"Manufacturers have reported a particularly tough quarter, and it will be crucial over the coming months to see how this trend plays out.

"Most firms continue to report no increase to their investment intentions. This is in part a reflection of broader uncertainty, with little clarity on major long-term projects and yet more trade barriers to come with the EU.

"Easing inflation and a recovery to business confidence provide brighter spots, but these need to be reinforced with a clear plan from Government on long-term investment and direction from the Bank on the interest rate."

CONTACT US

T 08455 240 240
E info@wnychamber.co.uk
W www.wnychamber.co.uk
@WNYChamber

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